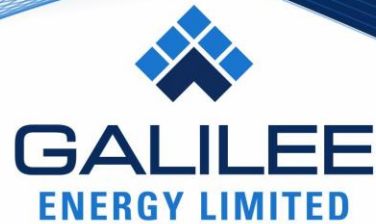


31 July 2017



### Highlights:

- ❖ The Company continues to focus on the Glenaras Gas Project, one of the largest undeveloped gas resources on the East Coast of Australia.
- ❖ Production testing of the R1 seam lateral pilot has been completed and analysis work has successfully matched production and pressure data collected during the pilot.
- ❖ The results strongly support a new multi-lateral pilot proximal to the Glenaras area as the optimal next step in the conversion of a substantial portion of the 5 Tcf gas Resource<sup>+</sup> to Reserves.
- ❖ Work is well advanced to finalise pilot design with tendering underway for the drilling and completion work. Planning aimed at completing this work before year-end 2017.
- ❖ The Company also continues to pursue other opportunities and continues discussions with potential gas customers, infrastructure and investment partners.
- ❖ 30 June cash position of \$6.1 million.

### Glenaras Gas Project (ATP 2019) – GLL 100%

The Company's flagship Glenaras Gas Project ("Project") is strategically located in western Queensland's Galilee Basin. The Permit covers an area of approximately 4000 km<sup>2</sup> and is 100% owned and operated by Galilee Energy Limited (Figure 1).

The Project has one of the largest remaining uncontracted gas resources on the east coast of Australia with an independently derived and certified Contingent Resource<sup>+</sup> within the Betts Creek coals with a 1C of 308 PJ, a 2C of 2508 PJ and a 3C of 5314 PJ. The Company's primary focus is on converting these Contingent Resources to Reserves.

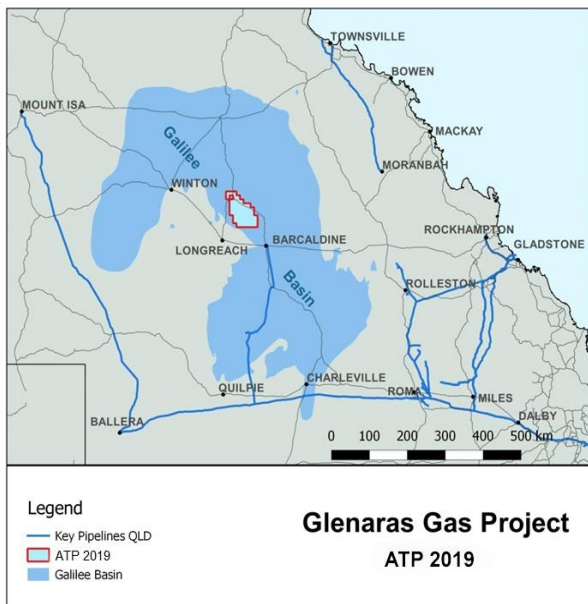


Figure 1

## R1 Seam Pilot

The R1 seam lateral pilot was drilled in the 3<sup>rd</sup> quarter 2016 and has produced strongly for approximately 10 months. Excellent quality data has been collected during this production phase, including gas and water production data from the lateral well along with key pressure data from the surrounding vertical wells Glenaras 2, 4 and 6. The results have now provided a clear path forward for the commercialisation of the asset.

Over the past four months, analysis has been conducted to match the extensive production and pressure history from the pilot using detailed reservoir simulation software. This work has greatly strengthened our understanding of the reservoir and our confidence in the forward commercialisation of the project. A summary of the major outcomes from the recent pilot are:

1. The artificial lift pumping system selected for the pilot has performed flawlessly. Artificial lift systems have been a continuous source of downtime and problems with previous pilots in the permit. The system developed for use in the current pilot will be used in any forward development.
2. The lateral pilot indicated that the Betts Creek coals in this area have a strong directional permeability, consistent with the dominant master cleat direction within the coal. This geological feature will result in increased reservoir drainage and recovery per well resulting in a reduction in development well numbers. This will have a strong bearing on future pilot design and ultimate development planning.
3. The pilot production and near well pressure data from surrounding wells confirms isolated production from coal only. This is a major step forward in confidence that the Betts Creek coals can be successfully developed without any significant interference by the interbedded sands within the Betts Creek sequence.
4. The drilling technology utilised for the lateral well allows for excellent control in this geological environment ensuring the wellbore stayed within coal and avoided neighbouring sandstone units.
5. Gas production onset was consistent with isotherm data confirming the critical desorption pressure of the coal within this permit.
6. A strong coal seam gas pilot analogy has been identified with very similar coal characteristics (permeability, master cleat system, saturation, gas content, etc.) to the Betts Creek coal. This coal achieved commercial pilot results using multi-lateral well technology and gives the Company confidence in the path forward to commercialisation.

## Next Stage: Multi-Lateral Pilot

Detailed analysis of the extensive production data from the existing lateral pilot has clearly identified the best way forward to commercialising the Glenaras project. The modelling has shown that a new pilot located a short distance from the current pilot, in known better permeability coals, is likely to achieve a commercial flow result in a short time frame, enabling the timely booking of a significant Reserve. This new pilot is being planned as a multi-lateral pilot, with three evenly spaced parallel laterals so as to allow the outer shield wells to protect the inner lateral, as with the analogous pilot elsewhere in eastern Australia. This configuration will allow the central well to draw the reservoir down below critical desorption pressure and achieve commercial gas rates more rapidly. Importantly, the proposed new pilot will be able to utilise existing production facilities such as camp, evaporation pond and surface pumping equipment.

Work is well advanced on the location and design of this new pilot. The Company is currently tendering for the drilling and completion work.

### **Government Initiatives**

Given the Glenaras asset is 100% owned, the Company has, and is considering, a range of alternative strategies to accelerate the commercialisation of the project, including but not limited to entering Joint Venture arrangements on development and/or gas offtake. Importantly, the Federal and State Governments have recently announced various programmes, which address gas acceleration for the East Coast market, and the Company will be looking closely at these options given our close timeframe to supply gas to market.

Overall, the Company has achieved significant progress from the recent lateral pilot and has a clear forward plan to progress Glenaras to a commercially viable project. The Company will update the market once the tender has been completed and capital planning for the programme has been completed. The Company is focussed on completing drilling and completion activity for the new pilot by the end of the 2017 calendar year if practical.

### **Commercial**

In parallel with field operations, the Company is well underway with a number of commercial initiatives including discussions with potential gas customers, infrastructure and investment partners. These will continue to progress in the coming months.

The projected shortfalls in the Australian east coast gas market present an enormous opportunity for the Galilee Energy gas assets. With very few other projects in the appraisal or development stage currently capable of meeting this shortfall, Galilee Energy is well placed to capitalise on this large potential given the size of our assets.

### **New Opportunities**

In addition to the Glenaras Gas Project, management has been assessing a number of new gas opportunities within Eastern Australia that would be complementary to the Glenaras Gas Project. The Company has a number of proposals in with various organisations on the acquisition of East Coast gas opportunities.

### **US Assets**

As previously announced following the Company's strategic review conducted in December 2015, no additional exploration activities are currently being undertaken in the US. The primary focus of the Company is on delivering on the Glenaras Gas Project. There are no significant expenditure plans within the US portfolio.

### **Chile**

Galilee has submitted a draft application to the Chilean government for an exploration permit application (CEOP) over an area of almost 6,000 sq.km in the Southern Magallanes Basin. There has been no significant activity on this application during the quarter.

## Financials

The cash flow for the Quarter is presented in the attached Appendix 5B report. The Company continues to maintain a very strong cash position of \$6.1 million and no debt.

The expenditure forecast for the next quarter is predominantly related to the Glenaras Gas Project and the evaluation of new opportunities. At the report date limited expenditure is anticipated elsewhere in the portfolio.

Peter Lansom  
Managing Director  
Galilee Energy Limited  
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[plansom@galilee-energy.com.au](mailto:plansom@galilee-energy.com.au)

### Listing Rule 5.42

+ The details of Contingent Resources referenced at page 1 of this Quarterly Activities report was announced to the market on 1 September 2015. In accordance with Listing Rule 5.34.3, Galilee Energy confirms that it is not aware of any new information or data that materially affects the information in the announcement to the market of the Contingent Resources 1 September 2015 and that all of the material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed.

### About Galilee

Galilee Energy is focused on creating a mid-tier exploration and production company building on its core strengths in coal seam gas appraisal and development. Its primary area of focus is Queensland where it is appraising the Galilee Basin whilst looking to add further acreage to its portfolio. It is also evaluating prospective exploration acreage in Chile.

#### Directors

**Chairman - David King**

**Managing Director – Peter Lansom**

**Non-executive Director – Ray Shorrocks**

#### Shares

**Shares on issue – 152,140,466**

**Top 20 holders – 49.1% \***

**Directors and Management – 8.3%**

**\*As at 3 July 2017**

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

**Name of entity**

GALILEE ENERGY LIMITED

**ABN**

11 064 957 419

**Quarter ended ("current quarter")**

June 2017

| <b>Consolidated statement of cash flows</b>               | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(12months)<br/>\$A'000</b> |
|---|------------------------------------|--|
| <b>1. Cash flows from operating activities</b>            |                                    |  |
| 1.1 Receipts from customers                               | -                                  | -  |
| 1.2 Payments for  |                                    |  |
| (a) exploration & evaluation                              | (565)                              | (3,721)  |
| (b) development   | -                                  | -  |
| (c) production  | -                                  | -  |
| (d) staff costs   | (112)                              | (424)  |
| (e) administration and corporate costs                    | (403)                              | (810)  |
| 1.3 Dividends received (see note 3)                       | -                                  | -  |
| 1.4 Interest received                                     | 48                                 | 207  |
| 1.5 Interest and other costs of finance paid              | -                                  | -  |
| 1.6 Income taxes paid                                     | -                                  | -  |
| 1.7 Research and development refunds                      | 1,405                              | 1,405  |
| 1.8 Other (provide details if material)                   |                                    |  |
| <b>1.9 Net cash from / (used in) operating activities</b> | <b>373</b>                         | <b>(3,343)</b>                                 |
| <b>2. Cash flows from investing activities</b>            |                                    |  |
| 2.1 Payments to acquire:                                  |                                    |  |
| (a) property, plant and equipment                         | -                                  | (90)   |
| (b) tenements (see item 10)                               | -                                  | -  |
| (c) investments   | -                                  | -  |
| (d) other non-current assets                              | -                                  | -  |

| <b>Consolidated statement of cash flows</b> |  | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(12months)<br/>\$A'000</b> |
|---|--|------------------------------------|--|
| 2.2   | Proceeds from the disposal of:   |                                    |  |
|   | (a) property, plant and equipment  | -                                  | -  |
|   | (b) tenements (see item 10)  | -                                  | -  |
|   | (c) investments  | -                                  | -  |
|   | (d) other non-current assets   | -                                  | -  |
| 2.3   | Cash flows from loans to other entities                                      | -                                  | -  |
| 2.4   | Dividends received (see note 3)  | -                                  | -  |
| 2.5   | Other (provide details if material)  | -                                  | -  |
| <b>2.6</b>                                  | <b>Net cash from / (used in) investing activities</b>                        | -                                  | <b>(90)</b>                                    |
| <b>3.</b>                                   | <b>Cash flows from financing activities</b>                                  |                                    |  |
| 3.1   | Proceeds from issues of shares   | -                                  | -  |
| 3.2   | Proceeds from issue of convertible notes                                     | -                                  | -  |
| 3.3   | Proceeds from exercise of share options                                      | -                                  | -  |
| 3.4   | Transaction costs related to issues of shares, convertible notes or options  | -                                  | -  |
| 3.5   | Proceeds from borrowings   | -                                  | -  |
| 3.6   | Repayment of borrowings  | -                                  | -  |
| 3.7   | Transaction costs related to loans and borrowings                            | -                                  | -  |
| 3.8   | Dividends paid   | -                                  | -  |
| 3.9   | Other (movement in bonds)  | -                                  | 43   |
| <b>3.10</b>                                 | <b>Net cash from / (used in) financing activities</b>                        | -                                  | <b>43</b>                                      |
| <b>4.</b>                                   | <b>Net increase / (decrease) in cash and cash equivalents for the period</b> |                                    |  |
| 4.1   | Cash and cash equivalents at beginning of period                             | 5,714                              | 9,478  |
| 4.2   | Net cash from / (used in) operating activities (item 1.9 above)              | 373                                | (3,343)  |
| 4.3   | Net cash from / (used in) investing activities (item 2.6 above)              | -                                  | (90)   |

+ See chapter 19 for defined terms.

| <b>Consolidated statement of cash flows</b> |  | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(12months)<br/>\$A'000</b> |
|---|--|------------------------------------|--|
| 4.4   | Net cash from / (used in) financing activities (item 3.10 above) | -                                  | 43   |
| 4.5   | Effect of movement in exchange rates on cash held                |                                    | (1)  |
| <b>4.6</b>                                  | <b>Cash and cash equivalents at end of period</b>                | <b>6,087</b>                       | <b>6,087</b>                                   |

| <b>5.</b>  | <b>Reconciliation of cash and cash equivalents</b><br>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | <b>Current quarter<br/>\$A'000</b> | <b>Previous quarter<br/>\$A'000</b> |
|------------|---|------------------------------------|-------------------------------------|
| 5.1        | Bank balances   | 2,387                              | 1,014                               |
| 5.2        | Call deposits   | 3,700                              | 4,700                               |
| 5.3        | Bank overdrafts   | -                                  | -                                   |
| 5.4        | Other (provide details)   | -                                  | -                                   |
| <b>5.5</b> | <b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>  | <b>6,087</b>                       | <b>5,714</b>                        |

**6. Payments to directors of the entity and their associates**

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

| <b>Current quarter<br/>\$A'000</b> |
|------------------------------------|
|------------------------------------|

|     |
|-----|
| 112 |
|-----|

|   |
|---|
| - |
|---|

| <b>7. Payments to related entities of the entity and their associates</b>                                | <b>Current quarter<br/>\$A'000</b> |
|--|------------------------------------|
| 7.1 Aggregate amount of payments to these parties included in item 1.2                                   | -                                  |
| 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3                       | -                                  |
| 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 |                                    |

| <b>8. Financing facilities available</b><br><i>Add notes as necessary for an understanding of the position</i>   | <b>Total facility amount<br/>at quarter end<br/>\$A'000</b> | <b>Amount drawn at<br/>quarter end<br/>\$A'000</b> |
|--|---|--|
| 8.1 Loan facilities  | -   | -  |
| 8.2 Credit standby arrangements  | -   | -  |
| 8.3 Other (please specify)   | -   | -  |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. |   |  |

| <b>9. Estimated cash outflows for next quarter</b> | <b>\$A'000</b> |
|--|----------------|
| 9.1 Exploration and evaluation                     | 347            |
| 9.2 Development                                    | -              |
| 9.3 Production                                     | -              |
| 9.4 Staff costs                                    | 140            |
| 9.5 Administration and corporate costs             | 130            |
| 9.6 Other (provide details if material)            | -              |
| <b>9.7 Total estimated cash outflows</b>           | <b>617</b>     |



## Mining exploration entity and oil and gas exploration entity quarterly report

| 10.  | Changes in tenements (items 2.1(b) and 2.2(b) above)                                  | Tenement reference and location | Nature of interest | Interest at beginning of quarter | Interest at end of quarter |
|------|---|---------------------------------|--------------------|----------------------------------|----------------------------|
| 10.1 | Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced |                                 |                    |                                  |                            |
| 10.2 | Interests in mining tenements and petroleum tenements acquired or increased           |                                 |                    |                                  |                            |

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  .....  
(Director/Company secretary)

Date: 31 July 2017

Print name: Stephen Rodgers

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.